

The Big Picture

Getting participants to swallow a more holistic approach to planning requires employers, employees, and advisers to get it together—and get in touch with reality

Janet Aschkenasy – 06/25/2007

When courting a small nonprofit with 30 participants and roughly \$2 million in 401(k) assets this past spring, Joshua P. Itzoe, Principal with Greenspring Wealth Management of Towson, Maryland, realized that, to fulfill the client's wishes, he was going to have to figure out how to make personal planning for retirement participants profitable.

Itzoe described the company CFO as "a very forward-thinking plan sponsor." The CFO wanted Greenspring Wealth Management to conduct face-to-face meetings with each and every one of his employees to help them get a look at their complete financial picture, including personal investments, plan allocations, and investment choices.

"Frankly, I started to push back on it," Itzoe confides. "I didn't know how profitable it would be, given that our clients pay us between \$3,000 and \$6,000 to do comprehensive planning services [which can include written goal analysis and updates, retirement and estate planning, risk management, and cash flow analysis, among other things]. We'd normally charge a percentage of plan assets for advice to the plan sponsor and general education to the plan participants," says the planner. One-on-one meetings are something else altogether, he explains, requiring a lot more time and effort.

However, the CFO was reluctant to let go of the idea and, since he was willing to negotiate over price and the extent of services provided, "We pared down the scope of services and promised to give an hour of our time to each one of the plan participants, asking that the participants assemble some basic information ahead of time." This way, Itzoe says, he could help participants to determine how much they need to be saving over the long haul, and with what kinds of instruments. The rule of thumb says you need 80% of pre-retirement income at retirement," Itzoe observes, "[but] I find rules of thumb are a one-size-fits-none approach.

"We said, 'We'll do some projections based on income and expenses and what they've saved so far and what those projections are going to look like at the age you want to retire based on the participant's anticipated expenses at that time.' Participants also can hire Itzoe's firm privately if they have more questions.

Still, the adviser had to think long and hard about how much to charge for this sort of sit-down. Ultimately, he quoted the plan sponsor \$150.00 per participant, down from the \$200 to \$250 an hour Itzoe charges his wealth management clients. "[The plan sponsor] can pay it from plan assets, offer it as an additional benefit, or he can put the cost onto participants themselves," says Itzoe, adding that the plan sponsor was thinking of going so far as to making the face-to-face meetings mandatory.

In Itzoe's case, the plan sponsor was driving the decision to implement holistic planning. Itzoe agrees that plan sponsor involvement is vital: "If more plan sponsors took their responsibility that seriously, our country would be much more effectively prepared for retirement."

It appears more plan sponsors will be taking their responsibility seriously, as Itzoe suggests: A survey released in April by Buck Consultants showed that 96% of U.S. employers say their top priority is encouraging employees to take more responsibility for their retirement and, in order to help them, nearly two-thirds of employers say they will make major changes to their plan design and communications by 2008 to try to get workers more engaged in retirement savings. This suggests that advisers may well find plan sponsors to be more receptive to their involvement in helping fulfill this objective.

Employer and Employee Disconnect

The disconnect between employees' expectations and reality is rampant: The Retirement Confidence Study from the Employee Benefit Research Institute (EBRI), released in April 2007, finds that many workers expect to rely on employer-provided benefits they are unlikely to receive. Workers are as likely to expect that they will receive retirement income from a defined benefit pension plan (62% of those surveyed) as current retirees are to receive it (63%). However, only 4 in 10 workers report they and/or their spouse are covered by this type of plan currently.

It is not only employer and employees that are not on the same page—employees seem disconnected from themselves. "People have a tendency to segregate all the elements that make up their financial life," says Itzoe. Unfortunately, he observes, it is hard to make decisions in a silo. Even a relatively enlightened employee with a 401(k) plan who contributes enough to get the match will often look separately at his home equity and mortgage, his life insurance premiums, his personal savings, and his tax situation. He says, "Usually, the right hand doesn't know what the left is doing."

That creates an opportunity for financial advisers to step in with advice, but holistic planning for the masses will not happen unless employers, employees, and advisers are all in synch. In other words, getting everyone on the same page—and finding a way for advisers to be compensated properly for personal advice given liberally to large groups of plan participants—is a prerequisite to putting the whole range of asset-gathering tools on the same page.

What's an Adviser To Do?

Can advisers help? Absolutely. EBRI found that more than half of workers would be likely to take advantage of professional investment advice offered by companies that manage employer-sponsored plans. Moreover, two-thirds of these workers say they would probably implement at least some of the recommendations they receive—although they did indicate that they most likely would pick and choose from the advice given to them—and less than a quarter of workers indicated they would implement recommendations intact, which

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means advisers looking to make a difference may have to work hard to persuade clients of their expertise.

For his part, Joel Larsen, President of Larsen Financial Strategies Group of Davis, California, finds it helpful to communicate to participants that, before they can get anywhere, they have to set a goal. "You can't just get in your car and drive; you've got to decide where you're going to go and figure out what route to take," he says. "People don't do that with retirement; they just get in the car. Do they want to retire? Yes, but that's a dream of retirement, not a goal. Put a date on it and you'll figure out what you need to do to get to the goal."

Still not every plan participant has sufficient assets outside of a 401(k) plan and their primary residence to make a huge difference to their retirement profile, says Joe Ready, Director of Wachovia Retirement Services. This reiterates the importance of tailoring a message to each participant.

When you're talking about savings for retirement, 85% of America probably has the 401(k) as the primary savings vehicle, he says. "For the average American, personal savings translates to their home equity, thinking they will downsize in retirement," says Ready. This makes ensuring they have set a goal and are working to reach it all that more important.

"[Contrarily,] the more affluent plan participant has assets in different places and still doesn't know what that will mean in terms of a monthly paycheck," Ready observes. These individuals are often saving blindly, says the Wachovia executive, so they likely need individualized help from an adviser who can bring all the different compartments together.

Larsen approaches holistic planning by offering additional education on personal financial management classes to plan participants and their spouses. Currently, participants view the 401(k) as something they do at work, he says, but, when spouses are invited to after-work events, things can change markedly. Participants who would usually defer the minimum amount change their tune once a spouse is on board, says Larsen, who finds that having a husband or wife by one's side can increase deferral percentages 100%. Involving spouses can lead to much better planning; only 23% of couples report joint involvement with their finances, but those who are jointly involved are more prepared for the unexpected in retirement and more optimistic about their expected lifestyle once in retirement, according to a recent Fidelity Investments survey.

Larsen recommends that advisers who do enrollment meetings also offer two classes a year on personal financial management, and offer these participant meetings free of charge. Usually, there's not so much turnout for the first meeting, he says, but those that do show up are good PR for the next meeting. "Don't try to do this when the kids are out of school or on the holidays," he adds—and definitely not around the Superbowl.

E-mails Larsen sends to his client base also are forwarded to plan participants to get them more accustomed to planning issues such as what to do with one's tax refund. "It's not an annual piggybank," he says. "What if you do take half your refund and do something financial planning-ish—like pay down some credit card debt?"

SIDEBAR: Alternative Approach

The advice provisions in the PPA offer another opportunity for advisers to get involved with plan participants

Although many employers have been reluctant to offer their participants advice because of the fiduciary implications, the Pension Protection Act of 2006 (PPA), which offers an exemption from the prohibited transaction related to the fiduciary exposure created by getting paid for giving investment advice to plan participants, should create more openness among plan sponsors previously fearful of the fiduciary responsibilities. However, plan sponsors still are responsible for selecting the fiduciary adviser, which means that they may be wary of someone approaching them offering to give advice to their workers.

Fine details of the PPA have not yet been cemented, but the law encourages employers to offer investment advice to their 401(k) and other plan participants by offering them safe harbor protection for advice provided by a fiduciary adviser or a fiduciary-compliant modeling program (see "Good Advice," Spring 2007). According to details provided by the Department of Labor in Field Assistance Bulletin 2007-1, qualified financial advisers will be eligible to provide individual advice to plan participants for a fee (paid by the plan or the participant) given the advisers acknowledge their fiduciary status in writing, charge only a level fee (with no difference in fee levels based on investment selection), and fully disclose their compensation arrangements, as well as conflicts of interest or, alternatively, they can use a computer model to generate recommendations, under which the advisers' compensation can vary.

As a result of the PPA, advisers also are more likely to sign on as plan fiduciaries to give them a competitive edge, says Kevin Timmerman, President of Steele Capital Management of Dubuque, Iowa. "We've been giving advice as an RIA to retirement plans for a long time and have notched up our fiduciary responsibility recently by taking on full fiduciary responsibility in writing," he says. "The PPA made it more attractive for us to do that as a way to stand out from our competition who don't want to give investment advice but only education."

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